**ALRAEDAH FINANCE COMPANY**
**(A SAUDI CLOSED JOINT STOCK COMPANY)**

**INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) AND INDEPENDENT AUDITOR'S REVIEW REPORT FOR THE THREE AND NINE MONTHS PERIODS <u>ENDED 30 SEPTEMBER 2020</u>**

**INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**
**FOR THE THREE AND NINE MONTH PERIOD ENDED 30 SEPTEMBER 2020**

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# Independent Auditor's Review Report

**To the shareholders of**
**Alraedah Finance Company**
**(A Saudi Closed Joint Stock Company)**

## Introduction

We have reviewed the accompanying interim condensed statement of financial position of Alraedah Finance Company (the "Company"), a Saudi Closed Joint Stock Company as at 30 September 2020 and the related interim condensed statements of comprehensive income for the three and nine month periods then ended, and the related interim condensed statements of changes in shareholders' equity and cash flows for the nine months period then ended and a summary of significant accounting policies and other explanatory notes from (1) to (17).

Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34 - "Interim Financial Reporting" ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", endorsed in the Kingdom of Saudi Arabia. A review of interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared in all material respects in accordance in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia.

## Other matter

The financial statements of the Company for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those financial statements on 3 March 2020.

**For Dr. Mohamed Al-Amri & Co,**

د. محمد العمري وشركاه - محاسبون قانونيون
س.ت : ١٠١٠٤٣٣٩٨٢
Riyadh
Certified Public Accountants
Dr. Mohamed Al-Amri & Co.

**Gihad Al-Amri**
Certified Public Accountant
Registration No. 362

Riyadh, on 2 November 2020 (G)
Corresponding to: 16 Rabi Al-Awwal 1442 (H)

## INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) FOR THE THREE AND NINE MONTH PERIOD ENDED 30 SEPTEMBER 2020

*(Saudi Riyals)*

| | Note | For the three months period ended 30 September | | For the nine months period ended 30 September | |
|---|---|---|---|---|---|
| | | **2020** | 2019 | **2020** | 2019 |
| **OPERATING INCOME** | | | | | |
| Special commission income from Ijara and Murabaha contracts | | **8,123,290** | 17,233,056 | **23,272,471** | 42,263,486 |
| Finance (charges) / gains, net | | **(2,234,917)** | (6,201,035) | **(4,298,027)** | (12,317,153) |
| | | **5,888,373** | 11,032,021 | **18,974,444** | 29,946,333 |
| Application fees and other income | | **608,593** | 559,270 | **1,775,769** | 1,679,562 |
| **TOTAL OPERATING INCOME, NET** | | **6,496,966** | 11,591,291 | **20,750,213** | 31,625,895 |
| **OPERATING EXPENSES** | | | | | |
| General and administrative expenses | 4 | **(5,442,086)** | (3,704,845) | **(12,600,398)** | (11,637,348) |
| Selling and marketing expenses | 5 | **(1,078,047)** | (864,658) | **(2,887,663)** | (2,758,653) |
| Impairment loss on Ijara and Murabaha receivables | 8 (b) | **(69,828)** | (4,596,376) | **(3,162,143)** | (7,596,376) |
| Depreciation and amortisation | | **(519,789)** | (467,419) | **(1,493,704)** | (1,395,252) |
| **(LOSS) / PROFIT BEFORE ZAKAT** | | **(612,784)** | 1,957,993 | **606,305** | 8,238,266 |
| Zakat | 6 | **-** | (195,800) | **(368,915)** | (823,827) |
| **(LOSS) / PROFIT FOR THE PERIOD** | | **(612,784)** | 1,762,193 | **237,390** | 7,414,439 |
| **OTHER COMPREHENSIVE INCOME FOR THE PERIOD** | | **-** | - | - | - |
| **TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE PERIOD** | | **(612,784)** | 1,762,193 | **237,390** | 7,414,439 |

## INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
## AS AT 30 SEPTEMBER 2020
*(Saudi Riyals)*

| | Note | **30 September 2020 (Unaudited)** | 31 December 2019 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and bank balances | 7 | **99,240,104** | 9,683,664 |
| Receivable from SAMA | 14 | **73,091,764** | - |
| Ijara and Murabaha receivables | 8(a) | **311,030,903** | 275,415,940 |
| Prepayments and other assets | | **4,986,143** | 6,867,728 |
| Investment held at fair value through other comprehensive income | | **892,850** | 892,850 |
| Right-of-use asset | | **2,015,842** | 2,771,783 |
| Property and equipment | | **467,542** | 304,506 |
| Intangible assets | | **1,182,435** | 860,521 |
| Restricted cash deposits | | **-** | 1,237,503 |
| **TOTAL ASSETS** | | **492,907,583** | 298,034,495 |
| | | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **LIABILITIES** | | | |
| Accounts payable and accruals | | **23,481,250** | 17,838,192 |
| Payable to SAMA | 14 | **142,134,902** | - |
| Zakat payable | 6 | **545,225** | 1,448,889 |
| Lease liability | | **870,593** | 1,881,954 |
| Borrowings | 10 | **147,847,397** | 99,548,259 |
| Employees' terminal benefits | | **1,540,680** | 1,067,055 |
| **TOTAL LIABILITIES** | | **316,420,047** | 121,784,349 |
| | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 9 | **150,000,000** | 150,000,000 |
| Statutory reserve | | **2,243,819** | 2,243,819 |
| Retained earnings | | **24,243,717** | 24,006,327 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **176,487,536** | 176,250,146 |
| | | | |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **492,907,583** | 298,034,495 |

## INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2020

*(Saudi Riyals)*

| | Share capital | Statutory reserve | Retained earnings | Total |
|---|---|---|---|---|
| ***For the nine month period ended 30 September 2019 (unaudited)*** | | | | |
| Balance as at 1 January 2019 | 150,000,000 | 1,418,154 | 16,575,345 | 167,993,499 |
| Profit for the period | - | - | 7,414,439 | 7,414,439 |
| Other comprehensive income for the period | - | - | - | - |
| Total comprehensive income for the period | - | - | 7,414,439 | 7,414,439 |
| Transfer to statutory reserve | - | 741,444 | (741,444) | - |
| Balance as at 30 September 2019 | 150,000,000 | 2,159,598 | 23,248,340 | 175,407,938 |
| ***For the nine month period ended 30 September 2020 (unaudited)*** | | | | |
| Balance as at 1 January 2020 | **150,000,000** | **2,243,819** | **24,006,327** | **176,250,146** |
| Profit for the period | **-** | **-** | **237,390** | **237,390** |
| Other comprehensive income for the period | **-** | **-** | **-** | **-** |
| Total comprehensive income for the period | **-** | **-** | **237,390** | **237,390** |
| **Balance as at 30 September 2020** | **150,000,000** | **2,243,819** | **24,243,717** | **176,487,536** |

**ALRAEDAH FINANCE COMPANY**
**(A Saudi Closed Joint Stock Company)**

## INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
## FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2020
*(Saudi Riyals)*

| | Note | 2020 | 2019 |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Profit before zakat | | **606,305** | 8,238,266 |
| *Adjustments for:* | | | |
| Government grant income | | **(22,096,888)** | - |
| Gain from modification of contractual cash flows of borrowings | | **(6,301,720)** | - |
| Finance cost | | **9,976,259** | - |
| Impairment loss on Ijara and Murabaha receivables | 8(b) | **3,162,143** | 7,596,376 |
| Depreciation on property and equipment | | **239,109** | 255,432 |
| Depreciation on right-of-use asset | | **755,941** | 755,939 |
| Amortisation of intangible assets | | **498,655** | 383,881 |
| Provision for employees' terminal benefits | | **608,094** | 158,689 |
| Finance charge on lease | | **116,093** | 151,149 |
| Unrealised gain on derivatives | | **-** | (556,417) |
| Amortisation of loan facility fee | | **-** | 250,000 |
| Operating cash flows before working capital adjustments | | **(12,436,009)** | 17,233,315 |
| *Working capital adjustments:* | | | |
| Restricted cash deposits | | **1,237,503** | 219,871 |
| Ijara and Murabaha receivables | | **(38,777,106)** | (93,782,366) |
| Prepayments and other assets | | **1,881,585** | (1,272,402) |
| Accounts payable and accruals | | **5,643,058** | 6,888,577 |
| **Cash used in operating activities** | | **(42,450,969)** | (70,713,005) |
| Employees' terminal benefits paid | | **(134,469)** | (34,523) |
| Zakat paid | 6 | **(1,272,579)** | (68,729) |
| **Net cash used in operating activities** | | **(43,858,017)** | (70,816,257) |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Purchase of property and equipment | | **(402,145)** | (7,524) |
| Purchase of intangible assets | | **(820,569)** | (84,552) |
| **Net cash used in investing activities** | | **(1,222,714)** | (92,076) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Cash received from SAMA | 14 | **100,750,000** | - |
| Repayment to SAMA | 14 | **(19,546,893)** | - |
| Proceeds from borrowings | | **70,000,000** | 78,620,613 |
| Repayment of borrowings | | **(15,438,482)** | (26,534,959) |
| Repayment of lease liabilities | | **(1,127,454)** | - |
| **Net cash from financing activities** | | **134,637,171** | 52,085,654 |
| **Net increase / (decrease) in cash and cash equivalents** | | **89,556,440** | (18,822,679) |
| Cash and cash equivalents at the beginning of the period | | **9,683,664** | 52,688,909 |
| **Cash and cash equivalents at the end of the period** | 7 | **99,240,104** | 33,866,230 |
| ***Supplementary information:*** | | | |
| Special commission income from Ijara and Murabaha contracts received | | **15,941,377** | 16,578,593 |
| ***Non-cash transactions:*** | | | |
| Right-of-use asset recognized | | **-** | 3,779,705 |
| Prepaid rent (adjustment upon adoption of IFRS 16) | | **-** | (849,098) |
| Lease liability | | **-** | 2,930,607 |

The attached notes 1 to 17 form part of these interim condensed financial statements.

## 1 STATUS AND NATURE OF ACTIVITIES

Alraedah Finance Company, a Saudi Closed Joint Stock Company (the "Company"), registered in Riyadh, Kingdom of Saudi Arabia under commercial registration number 1010314982 dated 21 Ramadan 1432 (H), corresponding to 21 August 2011 (G).

The Company has one branch in Buriydah under commercial registration number 1131056928 dated 24 Shaban 1437 (H), corresponding to 31 May 2016 (G) and one branch in Dammam under commercial registration number 2051222088 dated 17 Dhul Qa'dah 1439 (H), corresponding to 30 July 2018 (G).

The principal activity of the Company is to provide finance lease and finance for small and medium entities in the form of Ijara and Murabaha in accordance with the approval from Saudi Arabian Monetary Authority ("SAMA") numbered 43/ASH/201602 issued on 30 Rabi Thani 1437 (H), corresponding to 9 February 2016 (G).

The registered address of the Company is 3rd Floor, Tower B, Olaya Towers, Olaya Street, P.O. Box 86875, Riyadh, 11632, Kingdom of Saudi Arabia.

## 2 BASIS OF PREPARATION

These interim condensed financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. These interim condensed financial statements do not include all of the information and disclosures required for full annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended 31 December 2019.

In preparing these interim condensed financial statements, the significant judgments made by the management are same as those that applied to the financial statements for the year ended 31 December 2019.

These interim condensed financial statements have been presented in Saudi Riyals ("SR"), which is also the functional currency of the Company.

Assets and liabilities in the interim condensed statement of financial position are presented in the order of their liquidity.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Significant accounting policies

The interim condensed financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with IFRSs as endorsed in KSA. In addition, results for the nine-month period ended 30 September 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

### b) Significant accounting judgments, estimates and assumptions

The preparation of the Company's interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. The outbreak of novel coronavirus ("COVID-19") since early 2020, its spread across mainland China and then globally caused disruptions to businesses and economic activity globally and the declaration of this pandemic by the World Health Organization necessitated the Company's management to revisit its significant judgments in applying the Company's accounting policies and the methods of computation and the key sources of estimation applied to the annual financial statements for the year ended 31 December 2019. Whilst it is challenging now, to predict the full extent and duration of its business and economic impact, the Company's management carried out an impact assessment on the overall Company's operations and business aspects including factors like supply chain, travel restrictions, oil prices, product demand, etc. and concluded that, as of the issuance date of these interim condensed financial statements, no significant changes are required to the judgements and key estimates. However, in view of the current uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

*(Saudi Riyals)*

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other than the above, the accounting estimates and assumptions used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2019.

### c) New standards, interpretations and amendments adopted by the Company

The accounting policies used in the preparation of these interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Company has not early adopted any standard, interpretation or amendment that has been issued but not yet effective.

Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim condensed financial statements of the Company.

**Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform**

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the interim condensed financial statements of the Company as it does not have any interest rate hedge relationships.

**Amendments to IAS 1 and IAS 8: Definition of Material**

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim condensed financial statements of the Company.

## 4 GENERAL AND ADMINSTRATIVE EXPENSES

| | **For the three months period ended 30 September** | | **For the nine months period ended 30 September** | |
|---|---|---|---|---|
| | **2020 (Unaudited)** | 2019 (Unaudited) | **2020 (Unaudited)** | 2019 (Unaudited) |
| Salaries and employees' related cost | **2,433,644** | 2,515,813 | **6,979,882** | 8,246,468 |
| Professional and legal fees | **2,087,838** | 459,719 | **2,999,838** | 1,364,497 |
| Utilities expense | **80,000** | 73,143 | **390,000** | 201,014 |
| Health insurance expense | **87,316** | 120,279 | **312,979** | 361,337 |
| Sharia board fee | **36,000** | 36,000 | **108,000** | 108,000 |
| Rent | **32,401** | 28,749 | **81,569** | 87,915 |
| Others | **684,887** | 471,142 | **1,728,130** | 1,268,117 |
| | **5,442,086** | 3,704,845 | **12,600,398** | 11,637,348 |

## 5 SELLING AND MARKETING EXPENSES

| | **For the three months period ended 30 September** | | **For the nine months period ended 30 September** | |
|---|---|---|---|---|
| | **2020 (Unaudited)** | 2019 (Unaudited) | **2020 (Unaudited)** | 2019 (Unaudited) |
| Salaries and employees' related cost | **879,155** | 540,530 | **2,393,235** | 1,654,658 |
| Commission | **198,892** | 324,128 | **494,428** | 1,103,995 |
| | **1,078,047** | 864,658 | **2,887,663** | 2,758,653 |

*(Saudi Riyals)*

## 6 ZAKAT

The movement in the zakat provision for the period / year was as follows:

| | **30 September 2020 (Unaudited)** | 31 December 2019 (Audited) | 30 September 2019 (Unaudited) |
|---|---|---|---|
| At the beginning of the period / year | **1,448,889** | 3,869,766 | 3,869,766 |
| Provided during the period / year | **368,915** | 1,217,595 | 823,827 |
| Adjustment relating to prior years (see note below) | **-** | (3,569,741) | - |
| Paid during the period / year | **(1,272,579)** | (68,731) | (68,729) |
| At the end of the period / year | **545,225** | 1,448,889 | 4,624,864 |

***Status of assessments***
As at 30 September 2020, the Company had filed its zakat returns with the General Authority of Zakat and Tax ("GAZT") for all years up to 2019.

In November 2019, the GAZT issued the zakat and withholding tax assessments for the years 2014 and 2015 amounting to SR 7.2 million. The Company submitted the appeal letters against the above GAZT assessments which GAZT accepted. Accordingly, the Company adjusted the previously kept additional zakat provision of SR 3.6 million for the said years.

Zakat returns for the years 2012, 2013, 2018 and 2019 are still under review by GAZT.

## 7 CASH AND BANK BALANCES

For the purpose of the interim condensed statement of cash flows, cash and cash equivalents are comprised of the following:

| | **30 September 2020 (Unaudited)** | 31 December 2019 (Audited) |
|---|---|---|
| Bank balances – current account / cash and cash equivalents | **99,240,104** | 9,683,664 |

## 8 IJARA AND MURABAHA RECEIVABLES

Ijara and Murabaha receivables have an original term period between 1 to 5 years.

### 8 (a) Total receivables

| | **30 September 2020 (Unaudited)** | | | 31 December 2019 (Audited) | | |
|---|---|---|---|---|---|---|
| | **Ijara** | **Murabaha** | **Total** | Ijara | Murabaha | Total |
| Gross receivables | **5,077,402** | **371,959,918** | **377,037,320** | 7,063,330 | 335,795,074 | 342,858,404 |
| Less: unearned finance income | **(3,917,794)** | **(57,472,109)** | **(61,389,903)** | (5,381,207) | (53,255,707) | (58,636,914) |
| | **1,159,608** | **314,487,809** | **315,647,417** | 1,682,123 | 282,539,367 | 284,221,490 |
| Less: allowance for expected credit losses | **-** | **(4,616,514)** | **(4,616,514)** | (10,713) | (8,794,837) | (8,805,550) |
| Net receivables | **1,159,608** | **309,871,295** | **311,030,903** | 1,671,410 | 273,744,530 | 275,415,940 |

All the financing facilities provided by the Company are Shariah compliant accordingly they are unconventional in nature.

Murabaha receivables include the balance due from related party (note 11).

*(Saudi Riyals)*

### 8 (b) Movement in allowance for expected credit losses

| | **30 September 2020 (Unaudited)** | 31 December 2019 (Audited) | 30 September 2019 (Unaudited) |
|---|---|---|---|
| Balance at the beginning of the period/year | **8,805,550** | 6,732,473 | 6,732,473 |
| Charge for the period/year | **3,162,143** | 20,228,735 | 7,596,376 |
| Written off during the period/year | **(7,351,179)** | (18,155,658) | (151,918) |
| Balance at the end of the period/year | **4,616,514** | 8,805,550 | 14,176,931 |

### 8 (c) Expected maturity

The expected maturity of the gross Ijara and Murabaha receivables is as follows:

| | **30 September 2020 (Unaudited)** | | | 31 December 2019 (Audited) | | |
|---|---|---|---|---|---|---|
| | **Ijara** | **Murabaha** | **Total** | Ijara | Murabaha | Total |
| *Within 1 year* | **1,159,608** | **185,667,191** | **186,826,799** | 1,682,123 | 223,441,479 | 225,123,602 |
| *1 - 2 years* | **-** | **51,161,487** | **51,161,487** | - | 44,089,421 | 44,089,421 |
| *2 - 3 years* | **-** | **70,675,680** | **70,675,680** | - | 11,118,295 | 11,118,295 |
| *3 - 4 years* | **-** | **6,983,451** | **6,983,451** | - | 3,890,172 | 3,890,172 |
| **Total** | **1,159,608** | **314,487,809** | **315,647,417** | 1,682,123 | 282,539,367 | 284,221,490 |

### 8 (d) Aging of receivables (past due but not impaired)

As at reporting date, the aging of past due receivables are as follows:

| | *< 30 days* | *30 - 60 days* | *61 – 90 days* | *91 – 120 days* | *121 – 180 days* | *Above 180 days* | *Total* |
|---|---|---|---|---|---|---|---|
| **30 September 2020 (Unaudited)** | | | | | | | |
| **Receivables** | **7,463,646** | **766,553** | **2,655,623** | **280,697** | **1,377,484** | **63,775,722** | **76,319,725** |
| 31 December 2019 (Audited) | | | | | | | |
| Receivables | 20,848,470 | 15,102,796 | 27,784,103 | 609,657 | 1,669,833 | 56,757,156 | 122,772,015 |

### 8 (e) Economic Sector risk concentration for the receivables is as follows

| **Sectors** | **30 September 2020 (Unaudited)** | 31 December 2019 (Audited) |
|---|---|---|
| Services | **46.26%** | 58.56% |
| Contracting | **25.85%** | 18.60% |
| Retail business | **18.06%** | 9.51% |
| Trading | **7.23%** | 6.81% |
| Industrial | **2.60%** | 6.52% |

### 8 (f) Collateral

The Company in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the receivables. These collaterals mostly include vehicles, machinery and real estate. The collaterals are held against receivables and are managed against relevant exposures at their net realisable values. The value of the collateral as at 30 September 2020 amounted to SR 392.7 million (unaudited) [31 December 2019: SR 416.8 million (audited)] out of which the Company has pledged SR nil as at 30 September 2020 (unaudited) [31 December 2019: SR 25.7 million (audited)] against the then outstanding loan facility from Gulf International Bank (see note 10).

*(Saudi Riyals)*

## 9 SHARE CAPITAL

Share capital amounted to SR 150,000,000 as at 30 September 2020 and 31 December 2019 consisting of 15,000,000 shares of SR 10 each, which are fully paid.

## 10 BORROWINGS

The table below shows the details of the borrowings obtained by the Company:

| | | 30 September 2020 (Unaudited) | 31 December 2019 (Audited) |
|---|---|---|---|
| A | Bank borrowings | **-** | 9,374,362 |
| B | Borrowings from a government entity | **147,847,397** | 90,173,897 |
| | | **147,847,397** | 99,548,259 |
| Current portion | | **28,642,280** | 31,071,558 |
| Non-current portion | | **119,205,117** | 68,476,701 |
| | | **147,847,397** | 99,548,259 |

All borrowing facilities of the Company are Shariah complaint financing arrangements and are unconventional in nature.

**A - Bank borrowings**
During the period, the Company has repaid its total outstanding bank borrowings to Gulf International Bank.

**B - Borrowings from a government entity**
In prior years, the Company obtained loans from a government entity amounting to SR 125 million. This is repayable in monthly instalments that commenced in January 2019, with the final instalment due in June 2023. In April 2020, the government entity deferred its payments against the above mentioned loans for one year effective from March 2020. The accounting impact of these changes in terms of the borrowings has been assessed and are treated as per the requirements of IFRS 9. This resulted in the Company incurring a modification gain of SR 6.3 million (unaudited). The full amount of modification gain was recognized in interim condensed statement of comprehensive income, which is included in "finance charges/gains, net" line item. As required by the government entity as a condition of defer payments of these borrowings the Company is required to give one year deferrals of repayments to the Murabaha customers eligible for this program. This resulted in the Company incurring a corresponding modification loss of SR 10.3 million (unaudited). The full amount of modification gain was recognized in interim condensed statement of comprehensive income.

During 2020, the Company further obtained the following loans repayable in monthly instalments:

| Date of disbursement | Date of commencement of repayment | Date of final repayment | Loan amount |
|---|---|---|---|
| 9 June 2020 | 1 January 2021 | 1 December 2023 | 20,000,000 |
| 16 July 2020 | 1 February 2021 | 1 January 2024 | 25,000,000 |
| 27 September 2020 | 1 February 2021 | 1 January 2024 | 25,000,000 |

The above borrowings received by the Company from a government entity carry fixed special commission rates that are significantly lower than then prevailing market rates. They also carry a number of conditions, one of which is that equivalent loans should be disbursed to specific types/sectors of customers at reduced rates. The initially recorded benefit on these loans amounting to SR 7.5 million (unaudited) [31 December 2019: SR 9.2 million (audited)] million being the impact of "lower than market value" loan obtained by the Company was identified and accounted for as "government grant". Such benefits are recognised in interim condensed statement of comprehensive income on meeting the conditions attached to the grant.

*(Saudi Riyals)*

## 11 RELATED PARTIES TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Company, and entities controlled or significantly influenced by such parties.

The following are the details of major related party transactions during the period:

***Compensation to key management personnel of the Company***

| | Amount of transactions For the nine months period ended 30 September | |
|---|---|---|
| | **2020 (Unaudited)** | 2019 (Unaudited) |
| Remuneration | **1,355,562** | 1,359,096 |

***Transactions with the related party related to the contracts***

| Related parties | Relationship | Nature | 30 September 2020 (Unaudited) | 30 September 2019 (Unaudited) |
|---|---|---|---|---|
| Gheras Al-Khairat Company Limited | Controlled by key management personnel | Special commission income from Murabaha | **228,685** | - |

Below is the related party balance included in Ijara and Murabaha receivables (note 8(a)):

**Due from related party:**

| | 30 September 2020 (Unaudited) | 31 December 2019 (Audited) |
|---|---|---|
| Gheras Al-Khairat Company Limited | **7,309,205** | - |

## 12 RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including foreign currency risk and special commission rate risks), credit risk, legal risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is carried out by senior management. The most important risks and their management are summarised below.

***Foreign currency risk***

Foreign currency risk is the risk that the value of financial instruments of the Company will fluctuate due to changes in foreign exchange rates. The Company is not subject to fluctuations in foreign exchange rates in the normal course of its business as neither it undertakes significant transactions nor does it have any significant monetary assets and liabilities denominated in foreign currency.

***Special commission rate risk***

Special commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company is not exposed to a significant special commission rate risk at 30 September 2020.

***Credit risk***

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company has established a credit policy for corporate borrowers. Furthermore, all the loans are allowed for the maximum term of 60 months. As per such policy, Ijara and Murabaha receivable are not granted unless the borrower meets certain basic requirements, which are set out below:

- Corporate Know Your Customer ("KYC") validation of real operation;
- Income earned through cash flows;
- Collateral provided as equipment, vehicles, machinery, property, unless exempted; and
- Valuation of above mentioned collateral within basic Finance to Value ("FTV") ratios.

The Company monitors its receivables on a weekly basis. Furthermore, most of the receivables are backed by adequate collaterals.

*(Saudi Riyals)*

**12 RISK MANAGEMENT (continued)**

In case of receivables past due for nine months, the Company takes legal actions against the borrower with an aim to either collect the receivable by selling the collaterals against which the financing is provided or force the customers to regularise their overdue positions.

The table below reflects the Company's maximum exposure to credit risk for the components on the interim condensed statement of financial position:

| | **30 September 2020 (Unaudited)** | 31 December 2019 (Audited) |
|---|---|---|
| Bank balances | **99,240,104** | 9,683,664 |
| Restricted cash deposits | **-** | 1,237,503 |
| Ijara and Murabaha receivables (gross) | **315,647,417** | 284,221,490 |
| Other assets | **3,386,948** | 5,672,163 |
| | **418,274,469** | 300,814,820 |

***Legal risk***
Title deed of the real estate properties are registered in the name of a board member. The enforceability of any related rights and obligations are subject to interpretation and enforceability in the relevant courts of law.

***Liquidity risk***
Liquidity risk is the risk that the Company will be unable to meet its net financing requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of financing to dry up immediately. Management monitors the maturity profile of the Company's assets and liabilities to ensure that adequate liquidity is maintained.

***Analysis of financial liabilities by remaining contractual maturities***

The table below summarises the maturity profile of the Company's financial liabilities at 30 September 2020 and 31 December 2019 based on contractual undiscounted repayment obligations. The contractual maturities of liabilities have been determined based on the remaining period at the interim condensed statement of financial position date to the contractual maturity date.

| **30 September 2020 (Unaudited)** | **Less than 3 months** | **3-12 months** | **1-5 years** | **Total** |
|---|---|---|---|---|
| Accounts payable | **63,970** | **3,191,667** | **10,205,841** | **13,461,478** |
| Payable to SAMA | **4,511,284** | **59,283,051** | **90,500,537** | **154,294,872** |
| Lease liability | **-** | **909,291** | **-** | **909,291** |
| Borrowings | **-** | **38,474,562** | **128,901,503** | **167,376,065** |
| **Total** | **4,575,254** | **101,858,571** | **229,607,881** | **336,041,706** |

| **31 December 2019 (Audited)** | **Less than 3 months** | **3-12 months** | **1-5 years** | **Total** |
|---|---|---|---|---|
| Accounts payable | 1,296,734 | 4,952,256 | 11,235,183 | 17,484,173 |
| Lease liability | - | 1,132,131 | 1,132,131 | 2,264,262 |
| Borrowings | 8,920,048 | 30,530,547 | 69,538,306 | 108,988,901 |
| **Total** | 10,216,782 | 36,614,934 | 81,905,620 | 128,737,336 |

For the purpose of above disclosures, accrued special commission has been included within borrowings.

## 13 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Company.

Financial instruments comprise financial asset and financial liabilities. Financial assets of the Company include cash and bank balances, restricted cash deposits, Ijara and Murabaha receivables and other receivables. Financial liabilities of the Company include borrowings, payable to SAMA, refundable to SAMA, lease liability and accounts payable.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Company does not have any financial asset or financial liability carried at fair value in these financial statements except for investment held at fair value through other comprehensive income amounting SR 892,850.

## 14 SAMA PROGRAMS

***SAMA programs and initiatives launched***
In response to COVID-19 (refer also note 15), SAMA launched the Private Sector Financing Support Program (“PSFSP”) in March 2020 to provide the necessary support to the SME sector through empowering and facilitating the financing community. The PSFSP mainly encompasses the following programs:
- Deferred payments program;
- Funding for lending program;
- Loan guarantee program; and
- Point of sale (“POS”) and e-commerce service fee support program.

As at 30 September 2020, the Company is only participating in the deferred payment programs as mentioned above.

During April 2020, SAMA has issued a guidance around additional COVID-19 support measures for Micro, Small and Medium Enterprises (“MSMEs”) that the finance companies will need to undertake in relation to MSMEs deferred payments program. The Company has considered the guidance issued and implemented in the period ended 30 September 2020.

*Deferred payment program – March 2020*
As part of the deferred payments program, the Company is required to defer payments for six months (from March 2020 to September 2020) on the eligible microfinance facilities. The payment reliefs are considered as short-term liquidity support to address the borrower’s potential cash flow issues. The Company has effected the payment relief by extending the tenure of the applicable financings granted with no additional costs to be borne by the customers. The accounting impact of these changes in the terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9. This has resulted in the Company recognizing a day 1 modification loss of SR 5.9 million (unaudited) and this has been presented as part of special commission income. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Pursuant to SAMA deferred payments program, the Company under an agreement with SAMA, received a loan amounting to SR 100.8 million (unaudited), as profit-free deposit. Subsequently, management identified certain differences in the calculation based on which an amount of SR 100.8 million was derived. As a result, it was determined that an amount of SR 19.6 million should be refunded to SAMA and this was re-confirmed by SAMA and paid in July 2020. The revisited net amount payable to SAMA against this loan after repayment is SR 81.2 million. The amount is repayable to SAMA over the period of 3.5 years in equal monthly instalments, with an initial grace period of 6 months. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted in a total income of SR 10.4 million (unaudited), which was recognized in the interim condensed statement of comprehensive income immediately. The management has exercised certain judgements in the recognition and measurement of this grant income.

## 14 SAMA PROGRAMS

*Deferred payment program – September 2020 update*
In September 2020 SAMA announced to further extend the SAMA defer payments program for three months from September 2020 until December 2020. At 30 September 2020, the Company has recorded a receivable amounting to SR 73.1 million (unaudited), as profit-free deposit, which has been received subsequently to the period end. The amount is repayable to SAMA over the period of 1.25 years in equal monthly instalments, with an initial grace period of 4 months. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted in a total income of SR 4.2 million (unaudited), which was recognized in the interim condensed statement of comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income.

The Company has also recognized a day 1 modification loss of SR 3 million (unaudited) with respect to participating Murabaha facilities granted to its customers.

## 15 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES

During March 2020, the World Health Organisation (“WHO”) declared the Coronavirus (“COVID-19”) outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Kingdom of Saudi Arabia in particular has implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

Oil prices have also witnessed significant volatility during the current period, owing not just to demand issues arising from COVID-19 as the world economies go into lockdown, but also supply issues driven by volume which had predated the pandemic. The Company has evaluated the current situation through conducting stress testing scenarios on expected movements of oil prices and its impact on key credit, liquidity, operational, solvency and performance indicators in addition to other risk management practices to manage the potential business disruption due to COVID-19 outbreak that may have on its operations and financial performance. The steps taken by management also include commencing review of credit exposure concentrations at a more granular level such as the economic sectors, regions, country, counterparty etc., collateral protection, timely review and customer credit rating actions and appropriately restructuring loans, where required. These also take into consideration the impacts of government and SAMA support relief programmes.

These current events and the prevailing economic condition require the Company to revise certain inputs and assumptions used for the determination of expected credit losses (“ECL”). These would primarily revolve around either adjusting macroeconomic factors used by the Company in estimation of expected credit losses. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgmental, and the Company will continue to reassess its position and the related impact on a regular basis.

At this point in time, it is difficult to ascertain the specific effects the health crisis and government and SAMA support measures, such as the repayment holidays and other mitigating packages, will have. The Company has therefore concluded that it is too early for any potential credit impairment to be reflected through application of the staging criteria and focused on the macroeconomic model underpinning the Probability of Default (“PD”) and Loss Given Default (“LGD”) determinations. The Company will continue to individually assess significant corporate exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

## 16 EVENTS AFTER REPORTING DATE

No material events have occurred subsequent to the reporting date and before the issuance of these interim condensed financial statements which require adjustment to, or disclosure, in these interim condensed financial statements.

## 17 APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements were approved by the Board of Directors on 16 Rabi Al-Awwal 1442 (H), corresponding to 2 November 2020 (G).